INTRODUCTORY STATEMENT

PRESS CONFERENCE

Mario Draghi, President of the ECB,Luis de Guindos, Vice-President of the ECB,Frankfurt am Main, 10 April 2019

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Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today's meeting of the Governing Council.

Based on our regular economic and monetary analyses, we decided to keep the **key ECB interest rates** unchanged. We continue to expect them to remain at their present levels at least through the end of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

We intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase programme for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

The Governing Council stands ready to adjust all of its instruments, as appropriate, to ensure that inflation continues to move towards the Governing Council's inflation aim in a sustained manner.

Details on the precise terms of the new series of targeted longer-term refinancing operations (TLTROs) will be communicated at one of our forthcoming meetings. In particular, the pricing of the new TLTRO-III operations will take into account a thorough assessment of the bank-based transmission channel of monetary policy, as well as further developments in the economic outlook. In the context of our regular assessment, we will also consider whether the preservation of the favourable implications of negative interest rates for the economy requires the mitigation of their possible side effects, if any, on bank intermediation.

The information that has become available since the last Governing Council meeting in early March confirms slower growth momentum extending into the current year. While there are signs that some of the idiosyncratic domestic factors dampening growth are fading, global headwinds continue to weigh on euro area growth developments. The persistence of uncertainties, related to geopolitical factors, the threat of protectionism and vulnerabilities in emerging markets, is leaving marks on economic sentiment. At the same time, further employment gains and rising wages continue to underpin the resilience of the domestic economy and gradually rising inflation pressures. However, an ample degree of monetary accommodation remains necessary to safeguard favourable financing conditions and support the economic expansion, and thus to ensure that inflation remains on a sustained path towards levels that are below, but close to, 2% over the medium term. Significant monetary policy stimulus is being provided by our forward guidance on the key ECB interest rates, reinforced by the reinvestments of the sizeable stock of acquired assets and the new series of TLTROs.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro area real GDP rose by 0.2%, quarter on quarter, in the fourth quarter of 2018, following an increase of 0.1% in the third quarter. Incoming data continue to be weak, especially for the manufacturing sector, mainly on account of the slowdown in external demand, which has been compounded by some country and sector-specific factors. As the impact of these factors is turning out to be somewhat longer-lasting, the slower growth momentum is expected to extend into the current year. Looking ahead, the effect of these adverse factors is expected to unwind. The euro area expansion will continue to be supported by favourable financing conditions, further employment gains and rising wages, and the ongoing – albeit somewhat slower – expansion in global activity.

The risks surrounding the euro area growth outlook remain tilted to the downside, on account of the persistence of uncertainties related to geopolitical factors, the threat of protectionism and vulnerabilities in emerging markets.

According to Eurostat's flash estimate, euro area annual HICP inflation was 1.4% in March 2019, after 1.5% in February, reflecting mainly a decline in food, services and non-energy industrial goods price inflation. On the basis of current futures prices for oil, headline inflation is likely to decline over the coming months. Measures of underlying inflation remain generally muted, but labour cost pressures have strengthened and broadened amid high levels of capacity utilisation and tightening labour markets. Looking ahead, underlying inflation is expected to increase over the medium term, supported by our monetary policy measures, the ongoing economic expansion and rising wage growth.

Turning to the **monetary analysis**, broad money (M3) growth increased to 4.3% in February 2019, from 3.8% in January. Looking through some volatility in monthly flows, M3 growth continues to be backed by bank credit creation, notwithstanding a recent moderation in credit dynamics. The narrow monetary aggregate M1 remained the main contributor to broad money growth.

The annual growth rate of loans to non-financial corporations rebounded to 3.7% in February 2019, from 3.4% in January, reflecting mainly a base effect. Looking through short-term volatility, the annual growth rate of loans to non-financial corporations has moderated in recent months, reflecting the typical lagged reaction to the slowdown in economic growth. At the same time, the annual growth rate of loans to households remained broadly unchanged at 3.3% in February. The euro area bank lending survey for the first quarter of 2019 suggests that overall bank lending conditions remained favourable.

Our monetary policy measures, including the new series of TLTROs that we announced in March, will help to safeguard favourable bank lending conditions and will continue to support access to financing, in particular for small and medium-sized enterprises.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is still necessary for the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute more decisively to raising the longer-term growth potential and reducing vulnerabilities. The implementation of **structural reforms** in euro area countries needs to be substantially stepped up to increase resilience, reduce structural unemployment and boost euro area productivity and growth potential. Regarding **fiscal policies**, the mildly expansionary euro area fiscal stance and the operation of automatic stabilisers are providing support to economic activity. At the same time, countries where government debt is high need to continue rebuilding fiscal buffers. All countries should reinforce their efforts to achieve a more growth-friendly composition of public finances. Likewise, the transparent and consistent implementation of the European Union’s fiscal and economic governance framework over time and across countries remains essential to bolster the resilience of the euro area economy. Improving the functioning of Economic and Monetary Union remains a priority. The Governing Council welcomes the ongoing work and urges further specific and decisive steps to complete the banking union and the capital markets union.

We are now at your disposal for questions.

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One question first of all, you mentioned that in the context of your regular assessment you will consider whether the preservation of favourable implications requires mitigation of possible side-effects on bank intermediation from, I understand, negative rates. You made comments to a similar effect at the Watchers' conference recently, and it sparked a lot of speculation that you might be on the cusp of introducing a tiering system, so I would like to know from you whether that's something that's on the menu; whether that's something that you are considering. That's my first question.

The second is: You also mentioned that we'll get the pricing of TLTROs in the forthcoming meetings. We saw the bank lending survey yesterday. In your assessment in terms of loan growth and loan demand, does it give any indication of the conditions that could underpin the incentive scheme for the next TLTROs?

Draghi: Well, I would say to the second question, I would answer it's too early. It's just too early. If you read the statement I just gave, there is the - we, in a sense, - the Governing Council gives the criteria upon which this assessment for both the TLTRO III and the mitigation of possible side-effects would take place, the conditions under which the analysis would be carried out. It's two conditions. We'll take into account a thorough assessment of the bank-based transmission channel for our monetary policy, as well as further developments in the economic outlook. So we are looking at that, both things, and right now it's too early to decide about both. I would say the Governing Council was, I would say - we didn't vote, so it's not unanimous or anything - but it just had a consensus on the need for further analysis on both issues.

That, in a sense, includes the first question, because this language echoes what I did say in the ECB Watchers' speech, and that's it; we've got to look at that. The way we look is well specified here. We look at the functioning of the financial intermediation channel. As I said, the assessment of the bank-based transmission channel of monetary policy, as well as further developments in the economic outlook. So we have to see how the economic outlook will turn out between now and the next monetary policy meeting. Where, by the way, we also will be having the new projections.

There seems to have been over recent months quite a marked deterioration in the five-year-on-five-year inflation swap rate that suggests markets are becoming more concerned about your ability to hit the inflation target. In the past the fall in this measure was a trigger for the

introduction of QE at the beginning, and the expansion of the QE programmes, so how concerned are you about this, this time around, and how would you intend to react if this fall continues?

The second topic, we've had some remarks from the US president yesterday saying that he's going to impose tariffs on some European goods. To what extent are you concerned by these remarks, and does it represent a serious risk to the euro zone economy if this comes about and if there's an intensification of the trade frictions between Europe and the US?

Draghi: Now, your first question points out the continued deterioration of inflation expectations over the last several months, and we had quite a substantial analysis of why this is so. It's quite clear that the sliding of the five-year-to-five-year inflation expectations corresponds to a deterioration of the economic outlook. It's also quite clear that as the economic outlook, especially the economic activity slows down, also markets expect less pressure in the labour market, but we haven't seen that yet. So we have underlying strength in the economy, and so we analyse why this is so. The answer is that inflation expectations have deteriorated predominantly because of the risk premium, or the negative risk premium, which is a big difference to 2016. You may remember that in the early part of 2016 we had a similar deterioration of inflation expectations. That was different. At that time it was not so much because of the risk premium, but it was a real danger of de-anchoring.

So this is good news in the sense that it says that expectations are responding to the economic outlook, but not de-anchoring. However, this increase in the negative risk premium might reflect either the market perception, that we don't have instruments, and I think we've shown that we have plenty of instruments. If anything, the market reaction to my ECB Watchers' speech last time shows that we have plenty of instruments. Of course, that market reaction demonstrated that markets have fully understood our reaction function. Now, the second possibility is that we may well - I mean, the markets may think - the Governing Council would tolerate low inflation, too low inflation, without being de-anchored, but low. Now, let me just dispel any such impression. Of course, we remain fully committed to return inflation to 2% without undue delay. Also, let me also point out another aspect of this. Our inflation aim doesn't imply a ceiling at 2%; inflation can deviate from our objective in both directions, so long as the path of inflation converges to our medium-term objective.

Now, the second question is about this threat of tariffs from President Trump toward the Europeans. Of course, we listed the threat of protection as one of the potential factors dampening growth in the euro area - and elsewhere in the world, as a matter of fact - so this is not different from this viewpoint. Well, we have to see, first of all, what happens, because as you've seen in the past between words and deeds there is often a big gulf. But certainly, even the fact that these threats are being vented with some frequency, they certainly undermine general confidence, and there is no question about the fact that that's one of the reasons for the general weakness in the euro zone, I believe. Elsewhere in the world the confidence weakening has come from various threats, various vulnerabilities - it's a combination of effects - but certainly also from these threats of further protectionist measures.

So am I correct to assume and understand that you did discuss the precise terms of the TLTROs at today's meeting? The reason I ask is because the June meeting would come just days after you have a new chief economist on board, meaning much of the preparatory work would have to have been done by a predecessor. So do you see the Governing Council putting